

BWC BOARD OF DIRECTORS

ACTUARIAL COMMITTEE

THURSDAY, SEPTEMBER 25, 2008, 2:00 P.M.

WILLIAM GREEN BUILDING

THE NEIL SCHULTZ CONFERENCE CENTER

30 WEST SPRING STREET, 2ND FLOOR (MEZZANINE)

COLUMBUS, OHIO 43215

Members Present: Charles Bryan, Chair
James Hummel
David Caldwell
Thomas Pitts
William Lhota (ex officio)

Members Absent: James Matesich, Vice Chair

Other Directors Present: James Harris, Robert Smith, Kenneth Haffey, Alison Falls,
Larry Price

Counsel Present: John Williams, Assistant Attorney General

CALL TO ORDER

Mr. Bryan called the meeting to order at 2:06 PM and the roll call was taken.

MINUTES OF AUGUST 28, 2008

The minutes were approved without further changes by unanimous roll call vote on a motion by Mr. Caldwell, seconded by Mr. Hummel.

FOLLOW UP FROM PRIOR MEETINGS

Informational materials were provided to the members for review regarding reserve requirements of other exclusive states and Deloitte report comparisons. Actuarial review of legislation was shifted to later in the agenda.

NEW BUSINESS / ACTION ITEMS

1. Audit of the Actuarial Reserve as of 6-30-08.

John Pedrick, Chief Actuarial Officer, presented a recommendation that the financial statements be updated to reflect recommended liabilities for unpaid loss and loss adjustment expense of \$19 billion, \$435 million. These figures were confirmed as reasonable by Oliver Wyman Actuarial Consulting. Upon inquiry from Mr. Bryan, Mr. Pedrick confirmed these figures are identical to those in the reserve report. The \$15.7 billion figure for the State Insurance Fund is based on 9% medical inflation and a 5% discount rate. Mr. Pedrick also circulated written responses to questions from the Committee resulting from review of the draft audit in August. Additional materials include a mortality rate study from 2002, and employment statistics provided by the Ohio

Department of Job and Family Services. These were used by Oliver Wyman in preparing the report.

Jeffery Scott and Jeffery Scholl of Oliver Wyman presented their review of reserve analysis. This included comparative figures for the State Insurance Fund if either the medical inflation or discount rate is reduced. Mr. Bryan noted that current net assets of \$2.2 billion would be wiped out if the discount rate decreases.

Over the past few years, medical inflation has been less than 9%. Medical payments have remained steady, but the number of claims has dropped over time. National figures are also in the 9% range, and this figure is consistent with review of NCCI data since 1981. Medical inflation is based on when services are performed, which can be very remote from the date of injury. New procedures or drugs are developed over time which can increase costs.

Although the medical inflation rate has been 6-7% for the last 2-3 years, a 10-year look-back period shows that 9% is reasonable. Ms. Falls noted we also have a consultant opining that a 6% rate is reasonable. Mr. Bryan stated that the Committee should give great deference to the professionals when evaluating reasonableness.

With respect to reserves, an increase of \$.3 million was seen last year based upon a new calendar year, interest amortization, and expected payments. A chart on page 10 of the report was reviewed, showing that the required reserves when reevaluated at later dates have been lower than originally set. This is called downward development." Alternative reserve methods were studied, but were more unstable in the consultant's view. Responding to a question from Mr. Pitts, the consultants indicated a decrease in liability runoff was expected because medical payments stabilized.

Mr. Hummel moved that the Actuarial Committee recommend to the Board that it approve the release of the actuarial reserve audit to the Workers' Compensation Council (WCC) and the standing committees of the House of Representatives and the Senate with primary responsibility for workers' compensation legislation. The motion was seconded by Mr. Caldwell and passed by unanimous roll call vote.

2. Adjudicating Committee Policy Review

James Barnes, Chief Legal Officer, presented a second review of Adjudicating Committee policy, which provides guidance to the Adjudicating Committee on criteria to ensure transparency and consistent, fair decisions. Ohio Revised Code §4123.291(C) requires the Board to approve this policy based on the recommendation of the Actuarial Committee.

Mr. Barnes reviewed the Kaizen process which streamlined Adjudicating Committee functions. The policy only impacts employers, and gives them an opportunity to appeal premium and risk decisions made by BWC. The Industrial Commission has no involvement. Mr. Barnes also provided statistical information on the types of protests received and the number which go to hearing. IT is working on a web-based tracking system to make such information more readily available.

The Adjudicating Committee must follow business unit policies. However, this is not a "rubber stamp", as the policies provide for discretion to consider other factors such as

acts of nature, significant loss events, violence in the workplace, absence due to military duty, fraud, and illness or death of essential personnel. The Executive Order regarding common sense business regulation, which provides for waiver of penalties for a one-time clerical error, can also be considered. The Adjudicating Committee decides the issues independently. There is also an appeal process to the Administrator's Designee, and then to the Court of Common Pleas via mandamus or declaratory judgment.

Mr. Hummel moved that the Committee recommend to the Board that the Adjudicating Committee policy be approved. The motion was seconded by Mr. Pitts and approved by unanimous roll call vote.

3. Actuarial Review of Legislation

Ohio Revised Code §4121.125(C)(6) requires that the Board must "have prepared by or under the supervision of an actuary an actuarial analysis of any introduced legislation expected to have a measurable financial impact on the workers' compensation system." This analysis must be presented by the Board, to the WCC and the House/Senate standing committees with primary responsibility for workers' compensation legislation, not later than 60 days after the introduction of such legislation to the Legislative Services Commission.

Mr. Pedrick recommended that the BWC convene a committee when it is notified of pending legislation, consisting of the Chief Operating Officer, the Legislative Liaison, the WCC Liaison, Legal Counsel and the Chief Actuarial Officer, to consider the level of analysis and response required. If an in-depth analysis is necessary, the current actuarial consultants should be utilized. This process is both cost-effective, and already covered by the current consulting contract.

Mr. Lhota asked when BWC typically receives notification of legislation. BWC Administrator Marsha Ryan advised that BWC is very proactive and is usually aware of any legislation which may impact BWC well in advance of its introduction. Mr. Harris requested that the directors be informed of such legislation by e-mail. Administrator Ryan agreed.

Mr. Bryan commented that this is a reasonable short-term solution to comply with the law. However, there may be more work in terms of the complexity of the legislative proposals or the number of proposals than anticipated and this additional work and the tight time frame of 60 days may negatively impact the ability of the actuarial consultant to complete the reserving and the pricing work.

Mr. Hummel moved that the Committee recommend to the Board that it approve the process outlined for obtaining actuarial analysis of legislation as outlined in Mr. Pedrick's memorandum of September 15, 2008, with the understanding the process may need future revision. The motion was seconded by Mr. Caldwell and approved by unanimous roll call vote.

DISCUSSION ITEMS

1. Public Employer Taxing District rate indication / Public Employer State Agency Rate Estimates were evaluated, but in Mr. Pedrick's opinion, the 5% rate decrease was the most appropriate selection. Multiple assumptions were evaluated, but this was most appropriate in terms of projecting future costs, uncertainty and trends. This introduces

more stability, as the last 10 years have been somewhat volatile in terms of rate increases/decreases.

Mr. Pedrick reviewed Oliver Wyman's work product, including a chart showing rate change history over the past 10 years under multiple assumptions. The concern is that BWC requires a sufficient fund amount, and the rate cannot be changed for a year once set. A 4% discount rate is most appropriate because it promotes a cautious approach until the indications can be evaluated once more time has passed.

Ms. Falls asked how this proposed change fit into the overall picture, and expressed concern that other classes coming up for rate review in the future could be negatively impacted. Mr. Pedrick stated that while this scenario is more likely to contribute to net assets, these projections were not made with a net asset increase in mind. Mr. Pitts noted the discrepancy between using a 4% discount rate in these projections and a 5% discount rate elsewhere. Mr. Pedrick advised that the Oliver Wyman figures use one standard deviation of trend and there are "many moving parts" to the analysis. This is another reason for conservatism.

Further discussion of this information will take place at the October meeting.

2. CAO Report

Mr. Pedrick reviewed the CAO monthly report, noting the successful implementation of MIRA II web screens and claim reserves on September 8, 2008, which has received very positive feedback. The comprehensive plan which the board approved in June is moving forward with tangible deliverables on schedule for December. Capping methods are being developed for the Experience Modifier and premium increases. The Office of Budget and Management has approved three actuarial positions, including a new position of Director of Actuarial Analysis. The actuarial consulting contract will expire in December 2009. Actuarial staff will begin reviewing the RFP process for this contract.

ADJOURNMENT

Deloitte Consulting will make their 3rd presentation to the Board during a special Actuarial Educational Session October 30, 2008 from 8:00 AM to 11:00 AM. The next regular Actuarial Committee meeting is October 30, 2008 at 2:00 pm.

Mr. Bryan adjourned the meeting at 3:58 PM.

Prepared by Jill Whitworth, BWC Staff Counsel
September 26, 2008
11/4/2008 7:44 AM